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Correction 2

CONTAINS CONFIDENTIAL  
INFORMATION

March 5, 1985

To: Members of the Executive Board  
From: The Secretary  
Subject: India - Staff Report for the 1985 Article IV Consultation

For the convenience of Executive Directors the correct  
page 3 of SM/85/27 (1/25/85) is being reissued.

A corrected page is attached.

Att: (1)

Other Distribution:  
Department Heads

### III. Adjustment Strategy, Instruments and Targets Under the Extended Arrangement

The adjustment strategy pursued under the extended arrangement was based on that of the Sixth Plan (1980/81-1984/85); the strengthening of the balance of payments was sought through measures to increase agricultural and industrial supplies and to make the domestic economy more efficient. Structural reforms were to be pursued particularly in the areas of industrial and trade policies in coordination with a careful policy of demand management. Because policies aimed at strengthening the structure of production were expected to have a long gestation period and because the external balance was still sustainable, the external adjustment path sought was a gradual one coupled with substantial domestic growth. The current account deficit was expected to remain broadly unchanged at about 2 percent of GDP until 1983/84 and to decline somewhat in 1984/85. <sup>1/</sup> Sizeable overall balance of payments deficits were projected for the period of the arrangement (Table 1).

Real growth was targeted at 4.8 percent per annum, and the rate of wholesale price inflation was to be reduced from 15.4 percent in 1980/81 to 8 percent in 1983/84. High sectoral and overall rates of growth were to be achieved through an increase in the already high level of investment, particularly in the public sector, the alleviation of infrastructural bottlenecks, and generally improved efficiency of resource use. Particular stress was laid on the alleviation of shortages of coal, electric power, steel, cement, and railway transportation and on greater use of fertilizer and on the extension of the area under irrigation (Table 2). The accelerated schedule for crude oil production was expected to result in a decline in oil imports over the program as increases in domestic production were expected to exceed increases in consumption.

Improvements in efficiency were to be achieved by maximizing production from existing industrial capacity, and stimulating capacity expansion so as to (a) overcome bottlenecks; and (b) exploit economies of scale and areas of comparative advantage. Policies to achieve these objectives were to include improved access to imported inputs, including capital goods and foreign technology; the easing of regulatory restraints on capacity and production expansion; and heightened internal resource mobilization and production incentives through more flexible pricing policies.

Financial policies were designed to generate the increase in total domestic savings required to support the step-up in investment. Increased domestic savings were to result primarily from additional resource mobilization efforts by the public sector. Public sector savings targets (Table 1) were to be achieved mainly through a reduction

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<sup>1/</sup> The current account deficit for 1980/81 initially was estimated at 2.1 percent of GDP. Subsequently, this was revised to 1.6 percent.

Table 1. Selected Economic and Financial Indicators, 1980/81-1983/84

	1980/81		1981/82		1982/83			1983/84		
	Program base 1/	Actual	Original program 1/	Actual	Original program 1/	Revised program (EBS/82/102)	Actual	Original program 1/	Revised program (EBS/83/130)	Actual/ prov.
(Annual percent changes)										
National income and prices										
Real GDP at factor cost	7.0	7.8	4.8	5.3	4.8	5.0	2.6	4.8	6.0-6.5	8.0
Agriculture	14.0	12.8	1.4	3.3	1.4	1.7	-3.9	1.4	5.0	10.7
Manufacturing	4.1	1.7	7.3	5.1	7.3	7.0	2.4	7.3	7.0	4.0
GDP deflator	12.0	11.4	9.0	10.2	8.5	8.5	7.8	8.0	7.0	7.0
Wholesale prices 2/	15.4	16.7	11.0	2.4	9.0	8.0	6.6	8.0	7.0	9.1
Consumer prices 3/	...	11.4	...	12.5	...	...	7.8	...	7.0	12.6
External sector										
Exports, f.o.b.	13.3	7.1	16.2	11.8	16.1	11.9	0.4	16.6	7.2	6.4
Imports, c.i.f.	41.2	41.6	12.4	5.3	12.0	3.9	-2.8	15.8	3.8	4.7
Oil	85.1	66.0	-7.9	-6.5	0.6	-8.1	-10.4	14.3	-17.7	-23.9
Non-oil	17.2	28.0	29.8	13.8	19.0	11.2	1.7	16.5	14.2	19.7
Export volume	...	-0.8	5.0	3.5	7.0	7.0	-2.9	8.0	5.0	1.9
Import volume	...	15.8	1.6	-4.9	2.7	-1.0	-5.1	...	4.0	8.5
Terms of trade deterioration -)	...	-11.7	--	-2.4	-0.6	--	1.0	-0.6	3.2	8.2
Nominal effective exchange rate 2/	...	-3.9	...	-2.9	...	...	-3.6	...	...	-6.8
Real effective exchange rate 2/	...	-3.4	...	-4.8	...	...	-1.1	...	...	-0.7
Central government budget										
Revenue and grants	18.9	13.1	16.8	21.4	...	14.5	16.2	...	15.5	14.5
Total expenditure and net lending	18.9	19.3	15.5	14.7	...	11.6	26.2	...	13.0	14.1
Money and credit										
Domestic credit	24.6	25.0	19.4	18.9	18.3	18.6	17.4	17.4	17.8	15.5
Government	34.2	28.4	20.1	19.1	17.6	17.9	14.9	16.3	17.3	14.3
Commercial sector	18.8	18.6	18.9	18.7	18.9	19.0	19.3	18.1	18.1	16.4
Money and quasi-money (M <sub>3</sub> )	18.5	18.2	15.7	12.7	14.5	15.9	15.8	14.0	15.0	18.2
Narrow money	12.8	16.6	11.3	6.8	11.0	13.8	14.6	11.0	12.0	15.7
Interest rate (annual rate, five-year savings deposit) 4/	10.0	10.0	10.0	10.0	...	10.0	11.0	...	11.0	11.0
(In percent of GDP)										
Public plan outlays	11.6	11.7	11.8	12.3	12.9	12.5	13.2	14.1	14.3	13.4
Public sector savings	3.6	3.6	4.4	4.3	4.8	5.0	4.9	5.2	5.4	5.0
Central government savings	2.3	2.3	3.0	2.8	3.2	3.3	3.2	3.5	3.5	3.4
Central government budget deficit	6.2	6.5	6.4	5.8	6.4	5.6	7.6	6.8	6.5	7.5
Domestic bank financing	3.4	3.1	3.1	2.6	3.0	2.8	2.2	2.9	2.9	2.4
Foreign financing	...	1.1	0.9	0.7	1.0	0.7	0.8	...	0.9	0.9
Gross capital formation	25.5	24.6	25.7	24.7	26.1	25.5	24.1	26.5	26.4	25.0
Gross domestic savings	23.7	23.0	23.7	22.6	24.1	23.4	22.4	24.3	24.3	23.6
Current account deficit	-2.1	-1.6	-2.1	-1.8	-2.0	-2.1	-1.6	-2.3	-2.1	-1.5
Overall balance of payments (SDR mn.)	-712	-774	-1,683	-2,172	-2,024	-1,683	-1,143	-2,655	-1,497	-373
External debt (including IMF)	10.9	11.8	11.2	12.2	11.7	12.0	14.2	14.5	14.4	14.7
Debt service ratio 5/6/	8.3	8.5	8.5	9.3	9.2	11.0	11.3	9.9	13.8	14.0
Interest payments 5/6/	...	2.9	3.1	3.3	4.2	4.3	5.3	5.2	7.1	7.4
Gross official reserves (months of imports)	6	6	5	4	3	4	5	3	4	5
External payments arrears	--	--	--	--	--	--	--	--	--	--
Ceilings on nonconcessional loans (in millions of SDRs)										
1-12 years	--	--	1,400	363	--	1,400	1,269	--	1,500	751
1-5 years	--	--	400	44	--	200	120	--	200	30

1/ Original program projections (November 1981). Including subsequent refinements to the statistical definition of public savings.

2/ End-year percentage change.

3/ Annual average percentage change.

4/ Until the introduction of five-year deposits at 11 percent in 1982/83, the longest term deposit was three years.

5/ In percent of total current receipts.

6/ Including IMF.